

**ECRI**

# Americas Client & Industry Outreach Houston, USA



## Collaborative Working Arrangements Is Partnering Dead or Alive ?

*Thursday 5<sup>th</sup> November 2009*

**ECRI**  
ENGINEERING &  
CONSTRUCTION  
RISK INSTITUTE

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**KBR**

# Key Issues

- ▶ What is our playing field?
- ▶ How have we played together?
- ▶ How might we play together?
- ▶ Can we play together better?

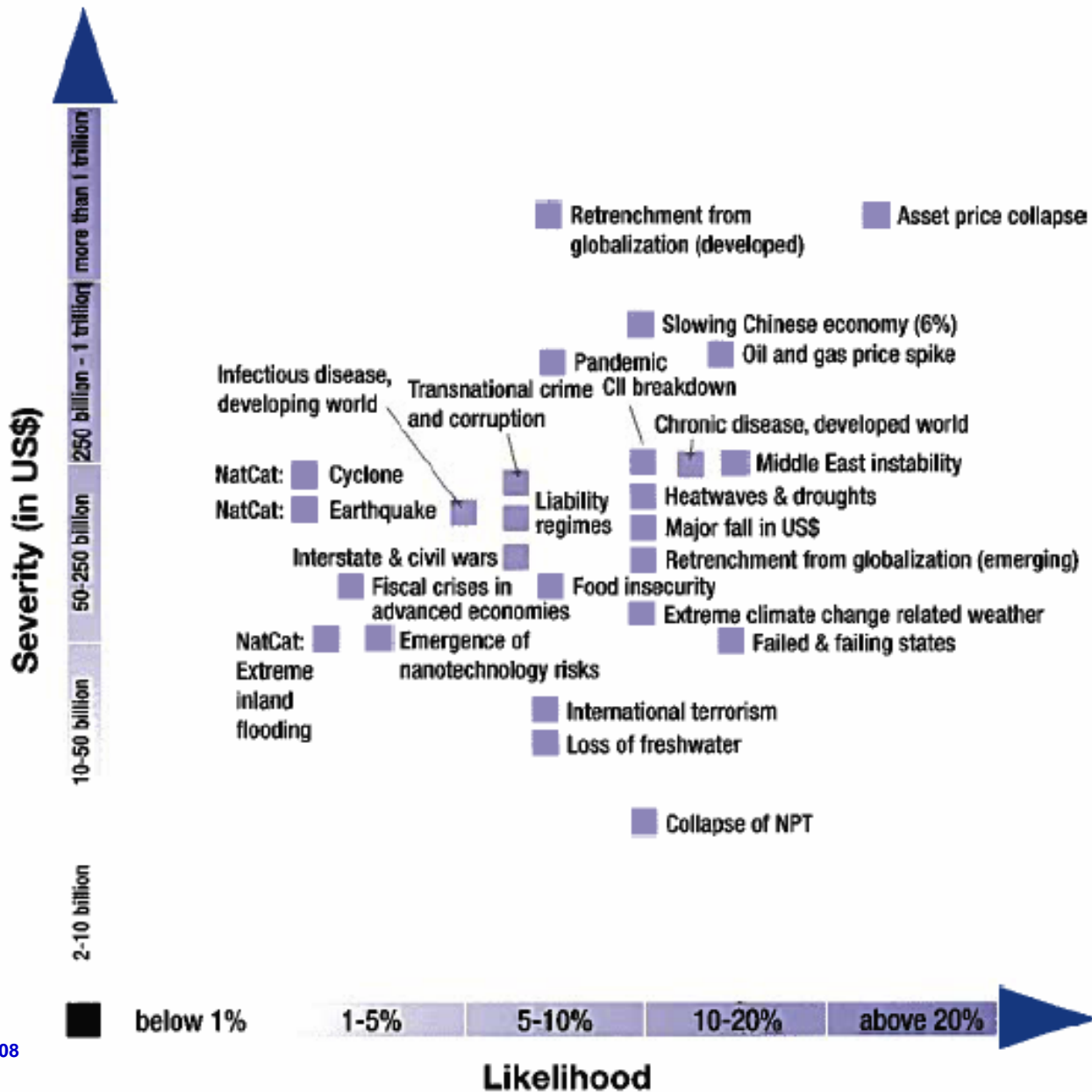


**“ It was the best of times, it was the worst of times; ...”**

**Charles Dickens *A Tale of Two Cities***



# Global Trends & Risks





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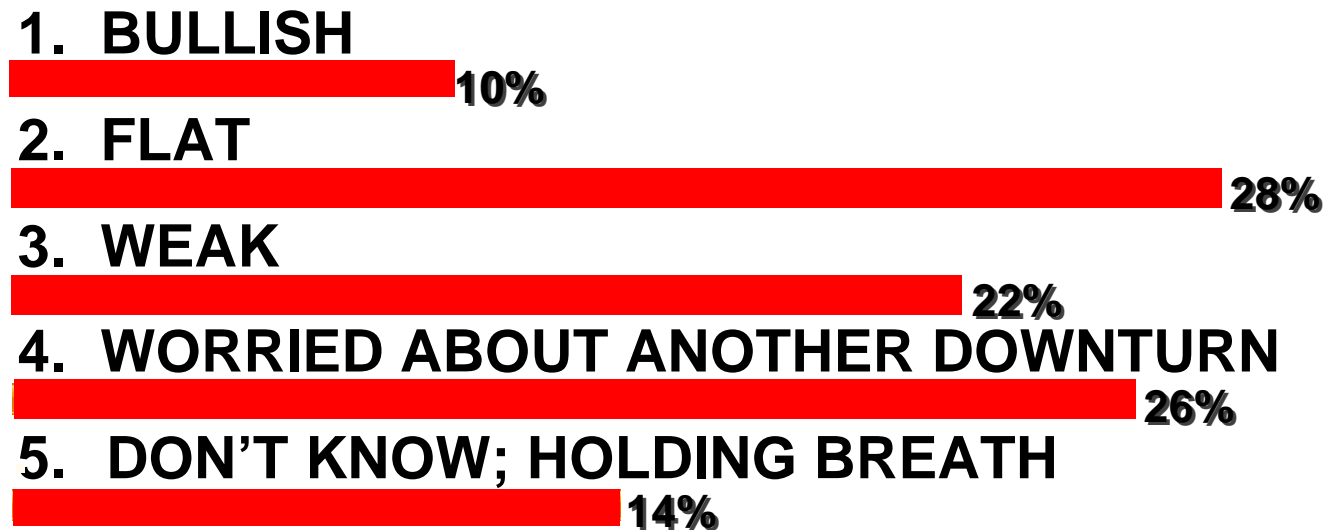
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# U.S. Economic Influences

- ▶ New economic policy team in Washington
  - Health care debate
  - Climate cap and trade debate
  - Growth-Debt-Inflation Trade offs
  
- ▶ Credit market freeze affecting private, state and local borrowers
  
- ▶ Weak demand for income-producing properties
  
- ▶ Weak consumer spending & stronger savings rates
  
- ▶ Falling tax revenue & state spending
  
- ▶ No real job growth, rising unemployment
  
- ▶ Stimulus

**HOW WOULD YOU CHARACTERIZE YOUR FEELING ABOUT THE U.S. ECONOMY FOR 2009?**



**HOW WOULD YOU CHARACTERIZE YOUR FEELINGS ABOUT THE U.S. ECONOMY IN THE MEDIUM TERM (3 YEARS)?**

**1. GRADUAL BUT STEADY RECOVERY**



**2. RAPID RECOVERY**



**3. STUCK WITH HIGH UNEMPLOYMENT, SLOW GROWTH, BIG DEFICITS, POSSIBLY INFLATION**





**WHAT SINGLE THING WORRIES YOU MOST?**

**1. UNEMPLOYMENT**



**2. INFLATION**



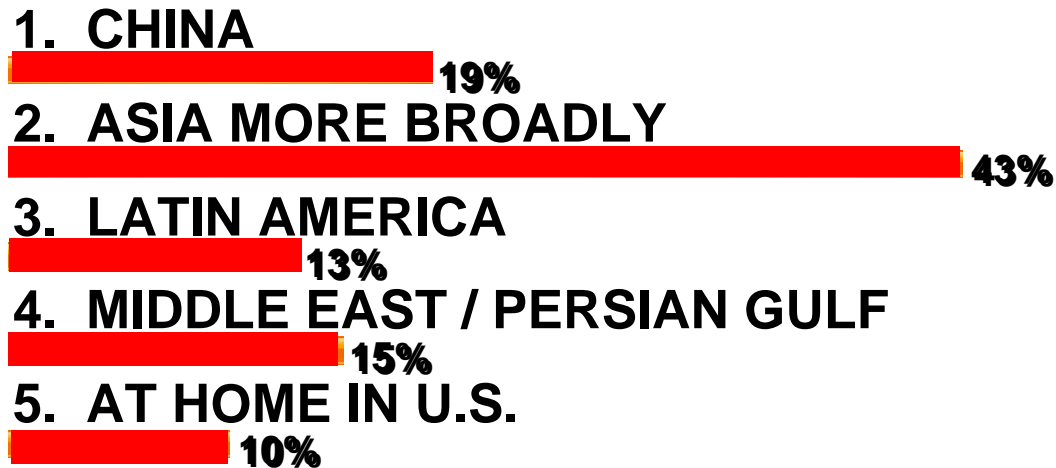
**3. TOO MUCH REGULATION**



**4. OTHER ILL-CONCEIVED POLICIES**

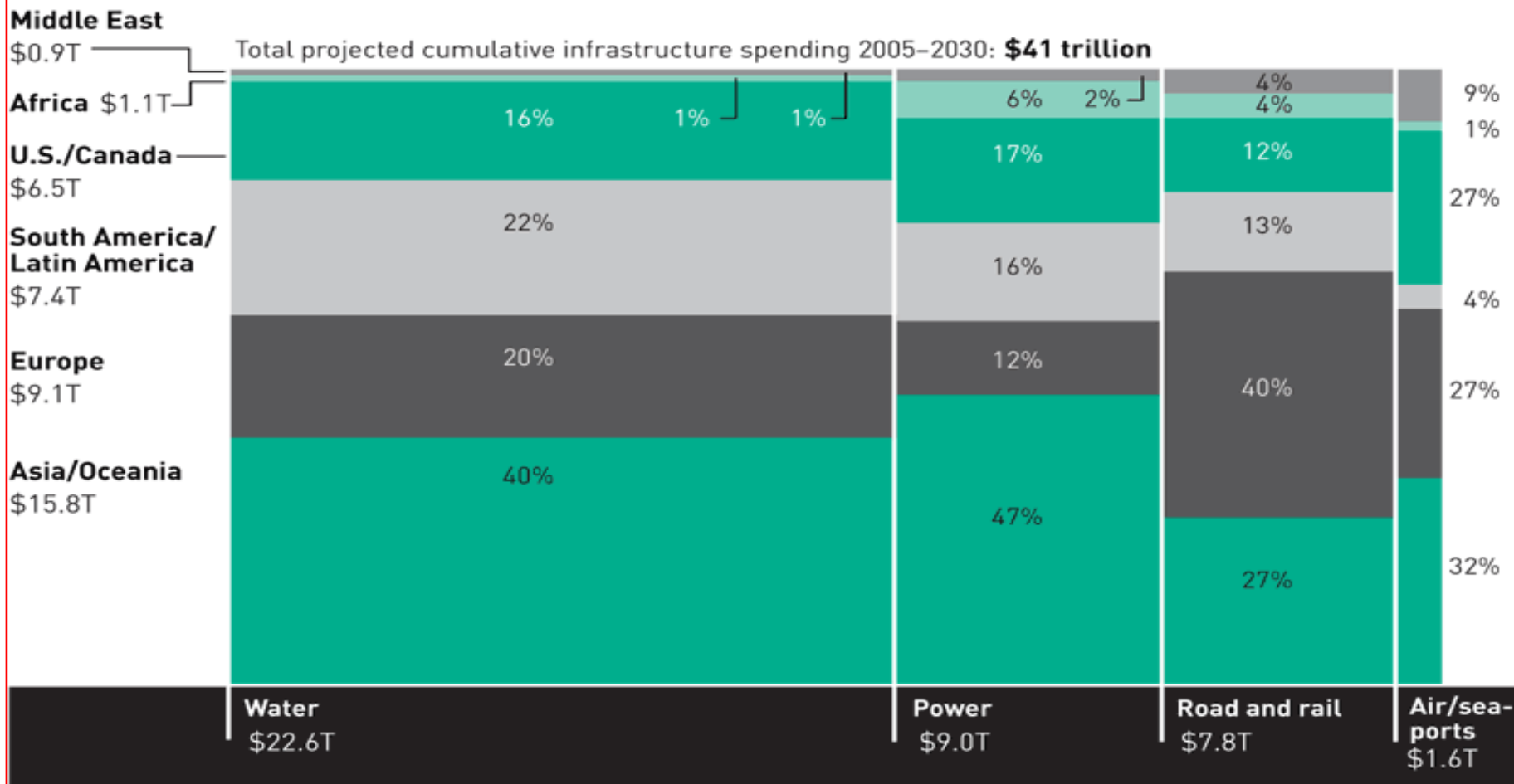


**WITH REGARD TO GLOBAL ECONOMY, WHERE ARE THE BIGGEST OPPORTUNITIES?**



# Potential Markets \$41 T Infrastructure

Percentages of total projected cumulative infrastructure investment needed during the next 25 years to modernize obsolescent systems and meet expanding demand, broken down by region (rows) and sector (columns).



Source: Booz Allen Hamilton, Global Infrastructure Partners, World Energy Outlook, Organisation for Economic Co-operation and Development (OECD), Boeing, Drewry Shipping Consultants, U.S. Department of Transportation

**CONCERNING GLOBAL ECONOMY, WHAT WORRIES YOU MOST?**



## WHAT MANAGEMENT SKILLS DO YOU THINK WILL BE MOST IMPORTANT IN THE YEARS AHEAD?

1. SELECTION AND RETENTION OF KEY PEOPLE



2. CREATING A FLEXIBLE AND RESILIENT CORPORATE CULTURE



3. BETTER UNDERSTANDING AND MANAGEMENT OF RISK



4. CLOSER TIES TO CUSTOMERS







5. GLOBALIZING COMPANY AND MANAGING OPERATIONS ACROSS BORDERS



6. ALL OF THE ABOVE



### IN THIS CURRENT MARKET, WHICH CONTRACTING STRATEGY ARE YOU SEEING (USING) MORE?

1. Open competitive bidding  
 37%
2. Selective competitive bidding  
 50%
3. Single source negotiation  
 3%
4. Growth under existing master contracts  
 10%

**“A long habit of not thinking a thing wrong gives it a superficial appearance of being right.”**

**Thomas Paine** Political Writer

# How have we played together?

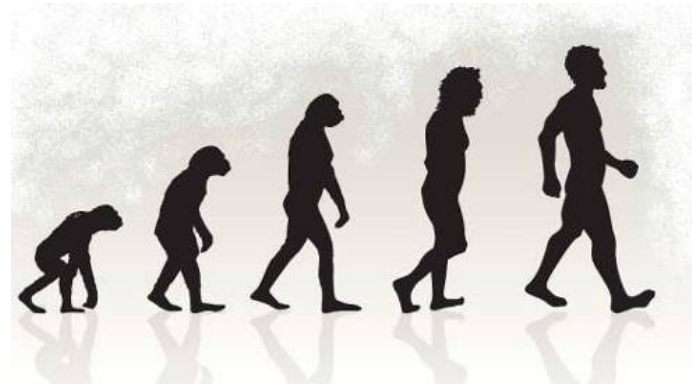
## ▶ Traditional Contracting

- D-C lump sum
- EPC lump sum
- Fully Reimbursable
- Mixed



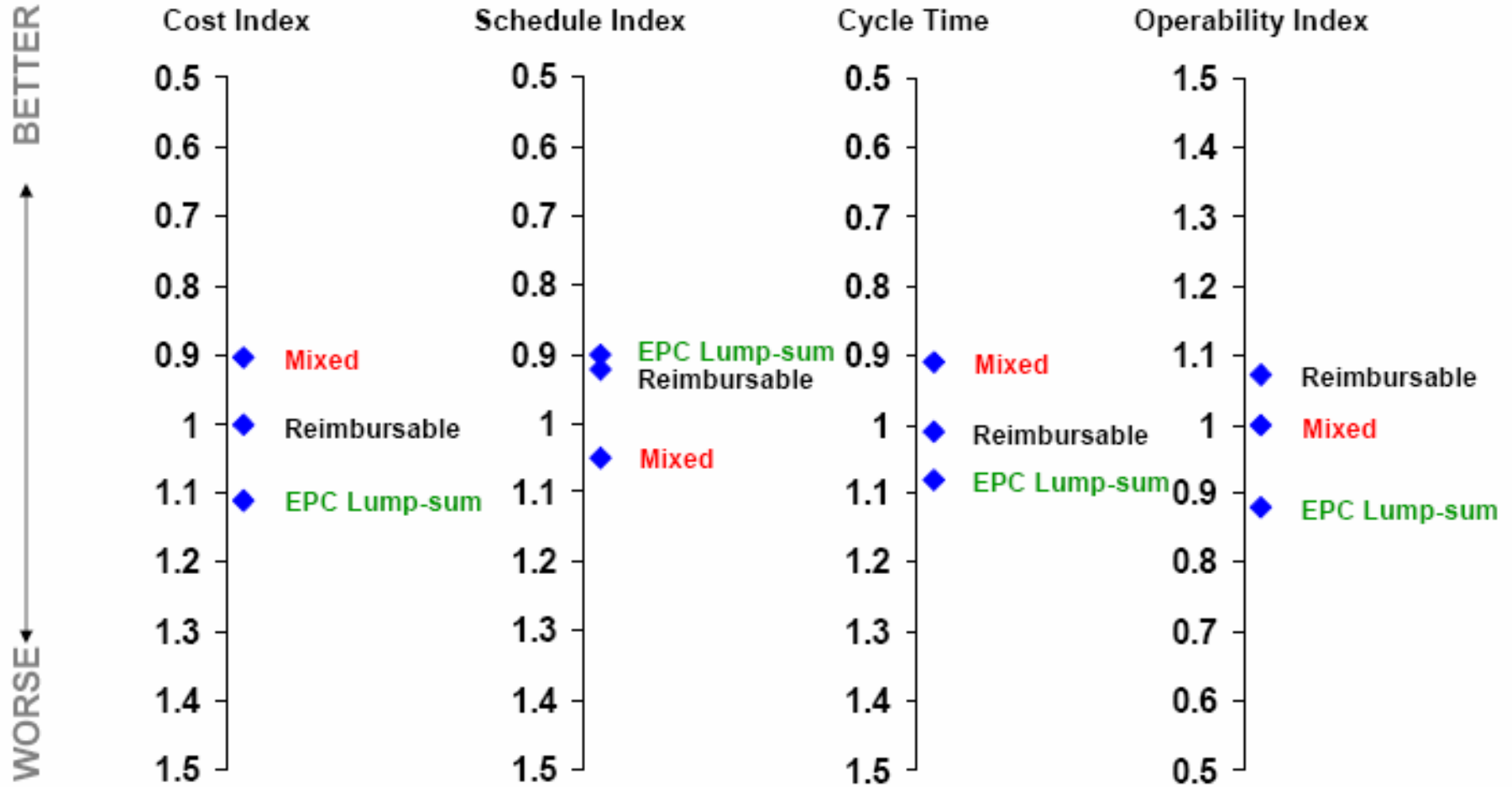
## ▶ Characteristics

- Misallocation of risk
- Misaligned commercial agreements
- Lump sum sets the lowest cost..... floor
- False perceptions of profits
- Distrust
- “Blame Game” culture
- “All for one and one for me”
- Innovation barrier
- Limited open communication
- Little or no sharing of information
- Transactional verses relationship based
- Costly litigation with no real winner
- Poor performance in cost overruns, productivity, quality and safety





# Contracting Strategy and Project Results?



Source: IPA

▶ A belief that the “Market” will deliver the “Right” price

▶ What is clear:

**“The market will deliver the lowest “bid cost” in line with the market conditions prevalent at the time when bids are sought.”**

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▶ Unintended Consequences

- Contractor lacks commitment for delivering what is best for owner
- Much time and resources spent on both sides dealing with disputes
- Contractor focuses on containing losses or increasing profitability
- Cost escalation and late completion
- Contractor goes out of business

**“The greatest griefs are those we cause ourselves.”**

**Sophocles**

**“It is generally understood that, although perhaps not universally recognized, that a Contractor must make a profit from a contract in order to survive commercially. “**

**“Likewise the Owner has a direct influence on the way the contractor makes a profit through the selection of the contracting strategy.”**

# How might we play together?

## ▶ Alliance Contracting & Partnering Key Philosophy

- Recognition that a contractor's profit is to be earned through his performance not on his ability to make and win claims.
- Common sense yes...silver bullet no...



## ▶ Partnering Overall Definitions

- “ A concept that focuses on making the goals of the owner, contractor, designer and supplier better understood and easier to manage; partnering outlines mutually attainable goals, satisfies long-term needs and assigns risk among all the parties involved” CII
- “ Partnering is a relationship between two or more companies or organizations which is formed with the express intent of improving performance in the delivery of projects” ECI

# How might we play together?

## ▶ Typical Arrangements

- Project Level Partnering / Teambuilding
- Project Partnering
- Alliance Contracting
- Long Term Partnering
- Strategic Alliance



## ▶ Partnering Core Element

- Aims and goals are agreed upon and dispute resolution and escalation plans are established but partners still retain their independence and may individually suffer or gain from the relationship.

## ▶ Alliancing Core Element

- Parties form a cohesive entity that jointly shares all risks and rewards based on an agreed formula. All parties win-win or lose-lose together.

# How might we play together?

## ▶ Typical Partnering Elements

- Early stage involvement of key participants in project definition
- Integrated Team that includes the owner
- Alignment of commercial interests of all partners
- Transparency in cost process
- Organizational commitment at all levels
- Equitable contractual relationship & fair allocation of risks



# How might we play together?

## ▶ Typical Alliancing Elements

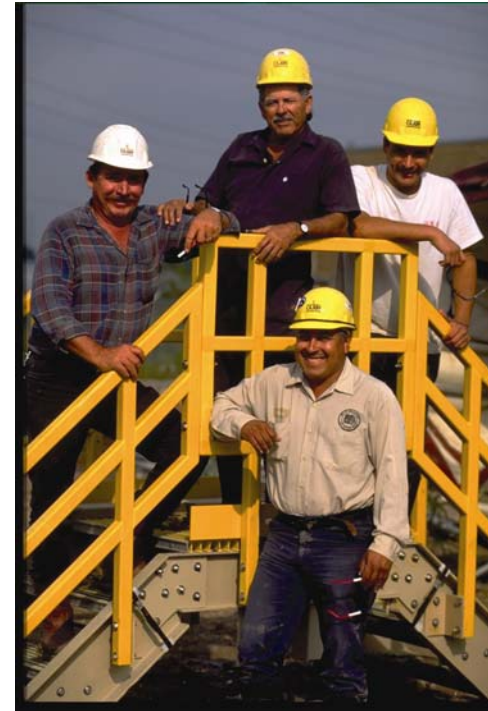
- Commercial framework drives “best for project”
- Shared gain and pain together : “target contract cost”
- All risks are shared by all members
- Only way to increase profit is by exceeding business as usual outcomes
- Integrated team where personnel are selected on “best for project”
- All decisions at project board level must be unanimous
- “No blame” where there is no formal disputes
- No change order, extension of time or liquated damages provisions



# How might we play together?

## ▶ Perceived Benefits

- Limited or no litigation
- Improved cost
- Greater potential for innovations
- Improved schedule
- Better quality
- Sustainable delivery mechanism for all parties
- Reduce project risk impacts
- Increased predictability





**“These are the times that try men’s souls....**

**If we do not hang together, we shall surely hang separately. “**

**Thomas Paine Political Writer**

**Is there a continued role for alliance contracting and partnering in this market—long term in this industry?**

**Is it dead or alive?**

